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C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 001954

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E.O. 12958: DECL: 03/25/2013

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SUBJECT: ENERGY AND THE IMF: AN INSIGHT INTO AK ECONOMIC  
DECISION-MAKING

REF: ANKARA 1905

(U) Classified by EconCouns Scot Marciel. Reason: 1.5 (b,d).

11. (C) Summary: Recent debates within the government over energy prices and treatment of energy arrears provide insights into AK's economic decision-making process. According to a senior energy official, Finance Minister Unakitan and State Minister Babacan fought vigorously over the weekend to convince Energy Minister Guler to approve long-delayed electricity price increases and to withdraw a decree that would have allowed farmers not to pay electricity arrears. Unakitan and Babacan argued that these moves were essential under the terms of the GOT's Letter of Intent with the IMF, and to enable the government to achieve its primary surplus targets. Guler countered that the government had promised to lower energy prices and reschedule energy arrears, and would pay a political cost if it failed to honor this commitment. As of March 25, the debate continues on price increases, but Guler apparently has conceded on the arrears issue. End Summary.

12. (C) Reftel reported IMF ResRep's concerns over reports late last week that Energy Minister Guler had announced plans to lower energy prices and to reschedule substantial arrears owed to the state energy distribution company, TEDAS. ResRep worried that these moves would contravene both the GOT's primary surplus target and its commitment, contained in the draft Letter of Intent, not to offer any more tax or payment amnesties.

13. (C) On March 25, State Electricity Trading Company (TETTAS) Director General Hayrettin Yildirim (protect) briefed us on these issues. He explained that TEDAS and TETTAS (which sells to TEDAS) had not been authorized to increase electricity prices since October 2002, despite steadily increasing costs. As a result, TETTAS' financial situation had deteriorated to the point that last week, for the first time in more than a year, it was unable to make full payment to power generation companies. Yildirim said he had written to Minister Guler and the Treasury Under Secretariat asking for a 7-10 percent tariff increase, the

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minimum needed for TETTAS to move back into the black.

14. (C) During a March 23 meeting at the Prime Ministry, Finance Minister Unakitan and State Minister for the Treasury Babacan had urged Energy Minister Guler to agree to the price increase, noting that it was essential to this year's fiscal targets. Guler countered that the government had made a political commitment to reduce electricity prices, not raise them, and that in any event a price increase was not necessary. He promised to provide by this weekend scenarios (to be developed by his personal aides, some of whom are also his relatives) demonstrating this point. According to Yildirim, Guler also told Babacan and Unakitan that the existing BOT companies had agreed to reduce their prices sharply. (Note: This is not true.)

15. (C) The Ministers also debated the question of arrears. Yildirim explained that farmers who use electricity to power irrigation systems owed a total of TL 300 trillion (just under \$200 million) in arrears to TEDAS. For several years, the government had issued an annual decree delaying payment of the arrears (always just for one more year). Last week, Minister Guler drafted and announced a similar decree. Babacan and Unakitan argued against the decree, pointing out that he would have a fiscal cost and would violate their

commitment to the IMF. Guler insisted that the government had made a political commitment to reschedule (i.e. defer) the payments, and had to honor that commitment. He refused to withdraw the draft decree.

16. (C) Yildirim told us that Guler finally agreed on March 24, with great reluctance, to withdraw the decree on arrears (though Yildirim could not confirm it had been withdrawn). The price increase issue remains unresolved, as Ministers Babacan and Unakitan await receipt of Guler's data explaining why the increase is not needed. (Separately, the government will take 1.5 percent off of energy prices, the result of an earlier decision to reduce a special tax applied on electricity and used to fund state television and radio.)

17. (C) Comment: This exchange highlights the enormous problems this government has agreeing to and implementing sound policies, not to mention its commitments to the IMF. Guler's views are all too common. Babacan and Unakitan, neither of whom has wowed the markets (or us) with economic policy prowess, do at least occasionally fight the good fight and -- relatively speaking within AK -- have some understanding of the need for sound policy and working with the IMF.

PEARSON